



28 February 2020

**Submission**  
to the  
**Consultation on Reforming the NZ Emissions Trading Scheme: Proposed Settings 2020**

*[C]arbon pricing is essential if humanity is to use the resources of creation wisely. The failure to deal with carbon emissions has incurred a vast debt that will now have to be repaid with interest by those coming after us. Our use of the world's natural resources can only be considered ethical when the economic and social costs of using them are transparently recognized and are fully borne by those who incur them, rather than by other people or future generations.*

- Pope Francis, *Laudato Si'*, # 195.

**Summary of main points**

- Carbon emission trading schemes are only one way to address climate change. What is needed is a transformation of our social and economic systems, recognising climate change as a symptom of an interrelated crises.
- The Government needs to set a more ambitious provisional emissions budget of 349 Mt CO<sub>2</sub>-e or below. Urgent action is required to reduce emissions.
- Caritas agrees with proposals to have a reserve floor and price ceiling trigger, though queries whether the floor is too low. An effective scheme must encourage strong reductions in carbon emissions. We consider the fixed price option should be removed completely.
- Noting that short term economic impacts of proposed changes may fall more heavily on poorer households, we call for a clear and comprehensive “just transition” strategy for the country.

**Introduction**

1. Caritas Aotearoa New Zealand is the New Zealand Catholic Bishops' agency for justice, peace and development. We work on behalf of the New Zealand Catholic Bishops Conference for a world free of poverty and injustice through community development, advocacy, education, and emergency relief.
2. Our work is shaped by Catholic Social Teaching, which upholds the dignity of each and every person, along with their responsibilities, regardless of culture, ethnicity, gender or religion. The particular CST principles relevant to this submission include: Preferential option for the poor

and vulnerable - *He whakaaro nui mō te hunga rawakore*; Stewardship – *Kaitiakitanga*; and the Common Good - *Hei painga mā te katoa*.

3. Our work is informed by grassroots development programmes and community-based research and conversation, which aims to reflect a participatory and inclusive process. Our annual State of the Environment for Oceania reports have documented over the last 6 years the real current impacts of climate change on the region’s poorest and most vulnerable people. For many climate action is coming too late. The poor can’t wait.

### ***Limitations of carbon trading***

4. Caritas holds that carbon emission trading schemes are only one limited way to address climate change. What is needed is a transformation of our social and economic systems, recognising climate change as one symptom of an interrelated global environmental, social and economic crisis. As Pope Francis has said, “The strategy of buying and selling “carbon credits” can lead to a new form of speculation which would not help reduce the emission of polluting gases worldwide. This system seems to provide a quick and easy solution under the guise of a certain commitment to the environment, but in no way does it allow for the radical change which present circumstances require.”
5. However, reducing emissions requires consideration of all tools and instruments available, including the market mechanisms. To be effective, emissions trading schemes must be set in such a way to deliver real, substantial, and in our current time - rapid - cuts in carbon emissions. The New Zealand ETS must also deliver a price for carbon that reflects its true social and environmental cost, and provide real incentives to decarbonise our economy.
6. Unlimited faith in markets and technology has led many people to believe that economic or technological fixes will be sufficient to remedy the current ecological and social imbalances. While technology certainly has a role to play we must also acknowledge that a global economic system which places ever greater demands on the finite physical resources of the planet becomes unsustainable. We need an integrate approach that addresses the inter-related environmental, social and economic crises we face and restores good relationships between peoples and the earth.

### **Specific consultation questions**

The remainder of the submission offers responses to specific questions in the Consultation document:

1. *Do you agree with the proposal to set a provisional emissions budget of 354 Mt CO<sub>2</sub>-e for the 2021 –25 period? If not, why not? Please include your views on:*
  - *using a straight-line approach towards the 2050 target*
  - *the considerations that were included in proposing the provisional emissions budget.*

Given the interim nature of this provisional budget, pending more considered advice once the Climate Change Commission is established, the straight-line approach is reasonable.

However, we believe the Government needs to set a more ambitious provisional emissions budget of 349 Mt CO<sub>2</sub>-e or below. We acknowledge this would be more challenging, but urgent action is required to reduce emissions.

We acknowledge the difficult circumstances of New Zealand's current emissions trend, where net emissions are expected to increase for 2 years, before falling after 2022. We commend the government's recognition of the need for urgent action, and its intention to hold the emissions budget steady by increasing level of emissions abatement from the beginning of the period. However, we consider more can and needs to be done more quickly.

The measures proposed to consider to achieve CO<sub>2</sub> abatement (even for the more ambitious budget alternative) is still largely based on simply substituting fuels and technology, or achieving efficiencies, rather than looking at the overall purpose of what we are doing, and who benefits from particular activities. As stated above, we need transformational change: The climate crisis is interrelated with economic, social and environmental attitudes which place excess profits above people and do not realise our fundamental dependence on nature.

We also note that the burden for keeping within the emissions budget, falls unfairly; in particular, through the continuing large-scale allocation of free emissions units to selected emissions-intensive businesses deemed to be trade exposed. This is a subsidy for continuing large-scale polluters. We note a recent media investigation<sup>1</sup> highlighted potential flaws in the method of calculating free allocations, so that some companies may be being over-compensated. We note the consultation document for the revised settings assumes no decline in the number of free allocation units over the 2021-25 period, which means fewer units available for auction to meet emissions budget target. While proposed changes to the ETS aim to progressively reduce the level of subsidy, they do not go far enough. The burden is falling on other sectors of the economy and households to reduce their emissions, for the country as a whole to keep within the carbon budget agreed.

*4. Do you agree with the proposal to address the NZ ETS unit stockpile by reducing the annual volume of NZUs available for auction? If not, why not?*

*5. Do you agree with 27 million NZUs being removed from auction volume between 2021–25? If not, why not?*

Caritas supports the general intent to reduce the unit stockpile to have a better functioning ETS. We have no particular view on the quantity, nor the measures proposed to do it.

*7. Do you support the proposal to auction 80 million NZUs over the 2021–25 period plus 2 million NZUs for auctioning trial in 2020? If not, why not? Please include your views on the process for adjusting auction volumes.*

*8. Do you agree with the proposal to set an auction reserve price floor at \$20 for 2020–25? If not, why not?*

Caritas agrees with the proposal to have a reserve floor though queries whether \$20 is too low. An effective trading scheme requires the price of carbon to be high enough to encourage strong reductions in carbon emissions. We note that the current central estimate of the social cost of carbon is probably over USD50 (NZD80) per tonne, according to the US Environmental Defense

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<sup>1</sup> <https://www.stuff.co.nz/environment/119089844/polluters-making-windfall-gains-from-scheme-to-reduce-emissions?rm=a>

Fund<sup>2</sup>. We are not advocating that NZ units should be trading that high currently, it highlights how far the New Zealand market is from reflecting the true cost of emitting carbon.

*9. Do you agree with the proposal to increase the fixed price option to \$35 for obligations arising from activities over 2020?*

In a submission on a review of the ETS in 2016 we said the \$25 fixed price surrender option should be removed as soon as possible. We continue to hold this is the case. It is particularly concerning that this fixed price option can be used by businesses which receiving free NZU allocations.

*10. Do you agree with the proposal to set the price ceiling trigger of the cost containment reserve at \$50 for the 2020–25 period? If not, why not?*

We agree there should be a price ceiling to trigger use of the cost containment reserve if needed. Based on current carbon prices in other regimes, the \$50 figure seems appropriate.

*13. Do you have any further comments?*

While the consultation booklet says impact on households is likely to be ‘moderate, on average’, it also says the impact of emissions pricing is felt more by lowest-income households “because they spend a greater proportion of their income on emissions intensive goods”. While there is reference to measures to reduce energy costs on lowest income households, we believe not enough is being done to address the overall impact of climate change on poor and marginalised people; and support workers in high emission industries/jobs which may need to be phased out or transformed. The impacts of climate change are disproportionately impacting the poor around the world. We need to make sure that low-income households in Aotearoa New Zealand are not disproportionately impacted by market measures designed to counter climate change. Our country still needs a clear and comprehensive “just transition” strategy to be fair to all New Zealanders.



The Catholic Agency for Justice,  
Peace & Development

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<sup>2</sup> <https://www.edf.org/true-cost-carbon-pollution>